

Department of Homeland Security **Office of Inspector General**

U.S. Citizenship and Immigration Services' Management Letter for FY 2013 DHS Financial Statements Audit





OFFICE OF INSPECTOR GENERAL
Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

APR 21 2014

MEMORANDUM FOR: Joseph Moore
Chief Financial Officer
U.S. Citizenship and Immigration Services

FROM: *for* Anne L. Richards *Mark Bell*
Assistant Inspector General for Audits

SUBJECT: *U.S. Citizenship and Immigration Services' Management Letter for FY 2013 DHS Financial Statements Audit*

Attached for your information is our final report, *U.S. Citizenship and Immigration Services' Management Letter for FY 2013 DHS Financial Statements Audit*. This report contains four comments and six recommendations related to internal control deficiencies that were not required to be reported in the *Independent Auditors' Report on DHS' FY 2013 Financial Statements and Internal Control over Financial Reporting*. Internal control deficiencies which are considered significant deficiencies were reported, as required, in the *Independent Auditors' Report*, dated December 11, 2013, which was included in the Department of Homeland Security's (DHS) fiscal year (FY) 2013 *Agency Financial Report*. We do not require management's response to the recommendations.

We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit of the DHS' FY 2013 financial statements and internal control over financial reporting. The contract required that KPMG perform its audit according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG is responsible for the attached management letter dated January 15, 2014, and the conclusions expressed in it.

Please call me with any questions, or your staff may contact Mark Bell, Deputy Assistant Inspector General for Audits, at (202) 254-4100.

Attachment



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

January 15, 2014

Office of Inspector General
U.S. Department of Homeland Security, and
Chief Financial Officer
U.S. Department of Homeland Security, U.S. Citizenship and Immigration Services
Washington, DC

Ladies and Gentlemen:

We have audited the financial statements of the U.S. Department of Homeland Security (DHS or Department) for the year ended September 30, 2013 (referred to herein as the “fiscal year (FY) 2013 financial statements”), and have issued our report thereon dated December 11, 2013. In planning and performing our audit of the financial statements of DHS, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. In conjunction with our audit of the financial statements, we also performed an audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants.

The U.S. Citizenship and Immigration Services (USCIS) is a component of DHS. During our audit, we noted certain matters involving internal control and other operational matters, related to USCIS, that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. These matters are summarized in the Table of Financial Management Comments on the following pages. The disposition of each internal control deficiency identified during our FY 2013 audit – as either reported in our *Independent Auditors’ Report*, or herein – is presented in Appendix A. Our findings related to information technology systems have been presented in a separate letter to the DHS Office of Inspector General, the USCIS Chief Information Officer, and Chief Financial Officer.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and on the effectiveness of internal control over financial reporting, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of USCIS’s organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

The purpose of this letter is solely to describe comments and recommendations intended to improve internal control or result in other operating efficiencies. Accordingly, this letter is not suitable for any other purpose.

Very truly yours,

KPMG LLP

U.S. Citizenship and Immigration Services
Table of Financial Management Comments
September 30, 2013

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**FMC 13-01 – Deficiencies in the Public and Confidential Financial Disclosure Reporting Process
(Notice of Finding and Recommendation (NFR) No. U.S. Citizenship and Immigration Services
(USCIS) 13-01)**

During testwork over Office of Government Ethics (OGE) Form 450, we noted that USCIS did not obtain and review 247 of the 791 required OGE reports by the February 15, 2013 deadline.

During testwork over OGE Form 278, we noted that one report was not reviewed and certified by the Ethics Officer within 60 days of filing.

Recommendation:

We recommend that USCIS make any necessary enhancements to systems and processes to ensure timely notification to and submission by employees of OGE Forms 450 and 278, and submitted forms are reviewed by the Ethics Office in a timely manner.

**FMC 13-02 – Deficiencies in the Recording, Classification, and Useful Life of Internal Use Software
(NFR No. USCIS 13-02)**

USCIS was unable to provide a complete general ledger detail for internal use software (IUS) costs as of June 30, 2013, for substantive testing.

We noted that the Financial Management Division (FMD) performed an analysis of the IUS balance as of July 31, 2013, and posted adjustments related to prior year activity, resulting in a net upward adjustment of \$6.4 million and a net downward adjustment of \$0.3 million.

We performed testwork over additions to the IUS balance as of June 30, 2013 and noted the following errors:

- USCIS did not reclassify \$14.1 million from Software in Development (United States Standard General Ledger (USSGL) account 1832) to Internal Use Software (USSGL account 1830) timely for one project. USCIS also did not update the useful life for that project in a timely manner. We noted that although management identified that the project's useful life was changed, the useful life in the accounting records was not updated to reflect this change timely.
- USCIS incorrectly reclassified capital costs of \$722,000 from USSGL account 1830 to USSGL account 1832 for another project, resulting in a \$182,000 understatement of amortization expense.

We performed testwork over additions to the IUS balance as of September 30, 2013, and noted the following:

- USCIS did not reclassify \$352,000 from USSGL account 1832 to USSGL account 1830 timely for one project.
- USCIS did not reclassify \$1.9 million from USSGL account 1832 to USSGL account 1830 timely for another project, resulting in a \$53,000 understatement of amortization expense.

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We performed a reconciliation to determine completeness and noted the following:
Eight system releases were in-development that were not accounted for by FMD. The budgeted amounts for these projects totaled \$3 million.

Recommendation:

We recommend that USCIS develop and implement, within each office responsible for the management of software development projects operating procedures for:

- Identifying and reporting of capitalizable software development projects prior to the initiation of software development.
- Collecting costs for capitalizable software development projects and timely reporting that information.
- Periodic reviews of the status of capitalizable software both in development and in operation, and the reporting of changes in status.

FMC 13-03 – Inadequate Preparation and Review of the Transaction by Elimination Pairs Report (NFR No. USCIS 13-06)

We noted that review of the September 2013 DHS Bureau Intra-Agency Transactions by Elimination Pairs Report was prepared using the August 2013 DHS Bureau Intra-Agency Transactions by Elimination Pairs Report.

Recommendation:

We recommend that USCIS ensure use of the most current information available when reviewing monthly and quarterly checklists.

FMC 13-04 – Insufficient Review of Journal Entries (NFR No. USCIS 13-07)

A manual journal entry for Imputed Costs related to the Office of Personnel Management Post-Employment Benefits was understated by \$1,893,179. The understatement was caused by a miscalculation due to the omission of the Federal Employees Retirement System - Revised Annuity Employee normal cost from the pension expense calculation.

USCIS proposed an on-top correcting entry for the amount of the error.

Recommendation:

We recommend that USCIS review and update procedures for verifying that calculations for manual journal entries are complete and accurate.

U.S. Citizenship and Immigration Services
Crosswalk – Financial Management Comments to Active NFRs
 September 30, 2013

Component	NFR No.	Description	Disposition ¹			
			IAR			FMC
			MW	SD	NC	No.
USCIS	13-01	Deficiencies in the Public and Confidential Financial Disclosure Reporting Process				13-01
USCIS	13-02	Deficiencies in the Recording, Classification, and Useful Life of Internal Use Software				13-02
USCIS	13-03	Inaccurate Data in the CLAIMS 3, CLAIMS 4, and MFAS Systems			J	
USCIS	13-04	Non-Compliance with the Federal Financial Management Improvement Act of 1996			J	
USCIS	13-05	Inadequate Monitoring of Software Licenses				Note 1
USCIS	13-06	Inadequate Preparation and Review of the Transaction by Elimination Pairs Report				13-03
USCIS	13-07	Insufficient Review of Journal Entries				13-04

¹Disposition Legend:

IAR Independent Auditors' Report dated December 11, 2013

FMC Financial Management Comment

MW Contributed to a Material Weakness at the Department level when combined with the results of all other components

SD Contributed to a Significant Deficiency at the Department level when combined with the results of all other components

NC Contributed to Non-Compliance with laws, regulations, contracts, and grant agreements at the Department level when combined with the results of all other components

NFR Notice of Finding and Recommendation

Cross-reference to the applicable sections of the IAR:

A Financial Reporting

B Information Technology Controls and Financial Systems Functionality

C Property, Plant, and Equipment

D Budgetary Accounting

E Entity-Level Controls

F Liabilities

G Grants Management

H Custodial Revenue and Drawback

I *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*J *Federal Financial Management Improvement Act of 1996 (FFMIA)*K *Single Audit Act Amendments of 1996*L *Antideficiency Act, as amended (ADA)*

Note 1: This finding was identified by USCIS management and therefore not included in the management letter.



OFFICE OF INSPECTOR GENERAL
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Appendix A
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Congress

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ADDITIONAL INFORMATION

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Should you be unable to access our website, you may submit your complaint in writing to:

Department of Homeland Security
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Attention: Office of Investigations Hotline
245 Murray Drive, SW
Washington, DC 20528-0305

You may also call 1(800) 323-8603 or fax the complaint directly to us at (202) 254-4297.

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